

CITY OF PORTSMOUTH, IOWA

INDEPENDENT ACCOUNTANT'S REPORT  
ON APPLYING AGREED-UPON PROCEDURES

FOR THE PERIOD  
JULY 1, 2014 THROUGH JUNE 30, 2015

CITY OF PORTSMOUTH, IOWA  
Table of Contents

	<u>Page</u>
OFFICIALS	1
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES	2
DETAILED RECOMMENDATIONS:	
	<u>Finding</u>
Segregation of Duties	A 4
Bank Reconciliations	B 4
Chart of Accounts	C 4
Deposits and Investments	D 4
City Council Meeting Minutes	E 5
Certified Budget	F 5
Questionable Disbursements	G 5
Countersignature of Checks	H 5
Electronic Check Retention	I 5
Capital Projects Fund	J 5
Monthly Financial Reports	K 6
Annual Financial Report	L 6
Local Option Sales Tax	M 6
County Property Tax Confirmations	N 6
Payroll Support	O 6
Receipt Posting	P 7

CITY OF PORTSMOUTH, IOWA  
OFFICIALS  
June 30, 2015

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Bill Sondag	Mayor	January, 2016
Teri Dunn	Council Member	January, 2016
Larry Wendt	Council Member	January, 2016
Tim Blum	Council Member	January, 2018
Danny Kenkel	Council Member	January, 2018
Craig Rau	Council Member	January, 2018
Laura Anderson	City Clerk	Indefinite

# Gronewold, Bell, Kyhnn & Co. P.C.

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## INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Honorable Mayor  
and Members of City Council

We have performed the procedures enumerated below which were established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide oversight of certain Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Portsmouth for the period July 1, 2014 through June 30, 2015. The City of Portsmouth's management, which agreed to the performance of the procedures performed, is responsible for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed security bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's recommended uniform chart of accounts and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2015 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.

To the Honorable Mayor  
and Members of City Council

7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
9. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended chart of accounts.
10. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended chart of accounts and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
11. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
12. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an audit of the City of Portsmouth, the objective of which is the expression of opinions on the City's financial statements. Accordingly we do not express opinions on the City's financial statements. Had we performed additional procedures, or had we performed an audit of the City of Portsmouth, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Portsmouth, Iowa and other parties to whom the City of Portsmouth may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Portsmouth during the course of our agreed-upon procedures. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Gmewold, Ben, Kuhn & Co. P.C.*

Atlantic, Iowa  
February 13, 2016

## DETAILED RECOMMENDATIONS

## CITY OF PORTSMOUTH, IOWA

### Detailed Recommendations

For the period July 1, 2014 through June 30, 2015

- (A) Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

- (1) Cash - handling, reconciling and recording.
- (2) Receipts - opening mail, collecting, depositing, journalizing, reconciling and posting.
- (3) Disbursements - purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll - recordkeeping, preparing and distributing.
- (5) Utilities - billing, collecting, depositing and posting.
- (6) Financial reporting - preparing and reconciling.
- (7) Journal entries - preparing and journalizing.

Recommendation - We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be documented by the signature or initials of the reviewer and the date of the review.

- (B) Bank Reconciliations - The cash and investment balances in the City's general ledger were not reconciled to bank and investment account balances throughout the year. For the two months reviewed, bank and book balances did not properly reconcile.

Recommendation - The city should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly and variances, if any, are reviewed and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

- (C) Chart of Accounts - The City has not fully implemented the recommended Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee on September 25, 2002.

Recommendation - To provide better financial information and control, the recommended COA, or its equivalent, should be followed.

- (D) Deposits and Investments - The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, a resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

Recommendation - The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa. The City Council, by resolution, should approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

## CITY OF PORTSMOUTH, IOWA

### Detailed Recommendations - Continued

For the period July 1, 2014 through June 30, 2015

- (E) City Council Meeting Minutes - Chapter 380.7 of the Code of Iowa requires minutes of all City Council proceedings be properly signed. Minutes for the four meetings tested were not properly signed.

Recommendation - The City should comply with the Code of Iowa and authorize City Council minutes with proper signature, as required.

- (F) Certified Budget - Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the public works and general government functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

- (G) Questionable Disbursements - Many of the disbursements tested did not have proper supporting documentation and were not properly approved by the City Council. Therefore, we were not able to determine if these disbursements met the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

Recommendation - The City should establish written policies and procedures, including the requirements for retaining proper documentation and approval for all disbursements.

- (H) Countersignature of Checks - The City requires checks to be signed by two authorized individuals. We noted several checks with only one authorized signature.

Recommendation - Checks should be prepared and signed by one individual and then the supporting documentation should be made available along with the check to a second independent individual for review and countersignature.

- (I) Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check for several bank accounts.

Recommendation - The City should obtain and retain images of both the front and back of cancelled checks for all bank accounts as required by Chapter 554D.114 of the Code of Iowa.

- (J) Capital Projects Fund - The City does not maintain a capital projects fund to properly account for the acquisition and construction of capital facilities.

Recommendation - The City should utilize a capital projects fund to account for the costs of acquisition and construction of capital facilities.



CITY OF PORTSMOUTH, IOWA

Detailed Recommendations - Continued

For the period July 1, 2014 through June 30, 2015

- (K) Monthly Financial Reports - The Clerk's monthly financial reports to the City Council included cash and investment balances and year-to-date receipts and disbursements, but did not include a summary of beginning fund balance, cash receipts, cash disbursements, ending fund balance by fund or a budget vs. actual comparison by function.

Recommendation - To provide better financial information, the monthly reports should include the beginning balance, receipts, disbursements, ending balance for each fund and a budget vs. actual comparison.

- (L) Annual Financial Report - The Annual Financial Report (AFR) ending fund balance showing deficit balances in the Governmental and Proprietary Funds did not agree with the accounting records. Also, Road Use Tax expenditure transactions were not properly recorded in the Special Revenue Fund and certain budgeted amounts do not agree to the certified filed budget.

Recommendation - The City should establish procedures to ensure beginning and ending balances of the AFR are accurate, supported by the City's financial records and expenditures are recorded within the proper fund to eliminate the deficit in order to show these funds are in sound financial positions.

- (M) Local Option Sales Tax - The ballot authorizing the local option sales tax was not retained by the City and the determination if local option sales tax receipts were expended as required by the local ballot provisions could not be made.

Recommendation - The City should retain authorized ballots of all local option sales tax receipts to ensure disbursements are in accordance with the provisions.

- (N) County Property Tax Confirmations - The property tax payment confirmations received from Shelby County were not retained after receiving the payments.

Recommendation - The City should retain all confirmations of property tax receipts to ensure proper recognition of payments.

- (O) Payroll Support - Support for the hours worked and City Council authorization for employee hourly wages are not being maintained. In addition, support for employee mileage reimbursements are not being maintained.

Recommendation - The City should retain all supporting documentation of hours worked, employee hourly rates of pay, and employee reimbursements to substantiate the disbursements made.

CITY OF PORTSMOUTH, IOWA

Detailed Recommendations - Continued

For the period July 1, 2014 through June 30, 2015

- (P) Receipt Posting - We noted multiple receipts from the State of Iowa and Shelby County were posted to the improper fund and improper accounts.

Recommendation - A review of the receipts postings and fund accounting should be done on a monthly basis to ensure the proper accounting and reporting of receipts.

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